

**STATE OF DELAWARE**

**OFFICE OF**

**AUDITOR OF ACCOUNTS**

**DEPARTMENT OF EDUCATION**

The seal of the State of Delaware is centered in the background. It features two figures, a Native American on the left and a Revolutionary War soldier on the right, flanking a central shield. The shield contains a ship and a cow. Above the shield is a banner with the words "LIBERTY AND INDEPENDENCE".

**DEBT SERVICE**

**FISCAL YEAR 2008**

**AGREED-UPON PROCEDURES ENGAGEMENT**

**FIELDWORK END DATE: SEPTEMBER 23, 2008**

**R. THOMAS WAGNER, JR., CFE, CGFM, CICA**

**AUDITOR OF ACCOUNTS**

Townsend Building, Suite 1  
401 Federal Street  
Dover, DE 19901

TELEPHONE 302-739-4241

FACSIMILE 302-739-2723

[www.state.de.us/auditor/index.htm](http://www.state.de.us/auditor/index.htm)

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**R. THOMAS WAGNER, JR., CFE, CGFM, CICA**  
**AUDITOR OF ACCOUNTS**

**PHONE: 302-739-4241**  
**FAX: 302-739-4217**

Independent Accountant's Report  
on Applying Agreed-Upon Procedures

The Honorable Valerie A. Woodruff  
Secretary  
Department of Education  
Townsend Building, Suite 2  
401 Federal Street  
Dover, DE 19901

We have performed the procedures enumerated below, which were agreed to by Department of Education (DOE), the following School Districts: Appoquinimink, Brandywine, Caesar Rodney, Cape Henlopen, Capital, Christina, Colonial, Delmar, Indian River, Lake Forest, Laurel, Milford, New Castle County Vocational Technical, Polytech, Red Clay, Seaford, Smyrna, Sussex Technical, and Woodbridge, and the Office of Auditor of Accounts (AOA). The procedures were performed solely to assist the specified parties in determining that: (a) tax receipts were properly credited by each School District as authorized by the tax levy and (b) each District's June 30, 2008 debt service balance was sufficient, without being excessive, to pay principal and interest payments for the first four months of Fiscal Year 2009. The Board of Education of each School District is responsible to levy a tax sufficient to make payment of interest and principal on outstanding bonds.

This agreed-upon procedures engagement was performed in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States and the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our objectives and related procedures were as follows:

***Objective #1***

**For all School Districts, except for the four restructured School Districts within New Castle County, recalculate the real estate tax for current operations, debt service, tuition, and minor capital improvements to verify tax receipts were properly recorded in DFMS.**

***Procedures:***

1. Obtain the District's tax warrants (Note: The warrant separates the tax rate amount the following categories: current operating expenses, minor capital improvements, debt service, tuition, and capitation [if applicable]) sent to the County Tax Office for Fiscal Year 2008, directing the County to collect specific tax amounts per \$100 assessed property and input into the spreadsheet titled, "*name of School District\_recalsprdsh*."
2. Obtain from the State Treasurer's Office the amount of school taxes deposited to the credit of the School District each month for Fiscal Year 2008 and input into the spreadsheet titled, "*name of School District\_recalsprdsh*." (Note: Sussex, Kent and New Castle Counties provide monthly tax receipt detail to the State Treasurer's Office. At the end of the fiscal year, AOA obtains the monthly detail from the State Treasurer's Office).
3. Using the tax warrants and the amounts reported by the Treasurer's Office, recalculate the tax revenue for each category and record the results on the "*name of School District\_recalsprdsh*" spreadsheet.
4. Obtain the respective revenues from DFMS, Appropriation Receipts by Revenue Code for FY08 for each category (Current Operations, Debt Service, Tuition, Minor Caps, and if applicable Technology Maintenance) and record the results on the "*name of School District\_recalsprdsh*" spreadsheet. Obtain DFMS activity in Excel format.
5. Compare the tax revenues as calculated by AOA to amounts reported in DFMS to verify tax revenues were coded to the proper appropriations as outlined by the tax warrants. Follow up on any significant variances (variances greater than \$1,000).

***Findings:***

See **Schedule of Findings** section of the report.

***Objective #2***

**Review the debt service expenditures (principal and interest) to verify they were proper and in accordance with the amortization schedule provided by the State Treasurer's Office.**

***Procedures:***

1. Obtain the amortization schedule provided by the Office of State Treasurer and determine the total scheduled principal and interest payments for Fiscal Year 2008.
2. Review the actual debt service expenditures (principal and interest) per DFMS to verify they were proper. Conduct a cross-comparison of the Appropriation Expenditures by Object Code to the amortization schedule (provided by the Office of State Treasurer) and finally to the payment schedule spreadsheet entitled, "*Payment Schedule\_name of School District*" (prepared by our office). Follow-up on variances discovered during this process.

***Findings:***

No findings were noted for this objective.

### ***Objective #3***

**Compare the June 30, 2008, debt service reserve balances to the total required debt service payments for July 1, 2008 through October 31, 2008 to determine whether the debt service reserves were sufficient, without being excessive, to pay the bond principal and interest for the first four months of Fiscal Year 2009.**

#### ***Procedures:***

1. Prepare appropriation 8100 fund balance statement titled, "fund balance statement\_*insert name of school.*"
  - a. Document the Real Estate Tax per DFMS (object code 1161).
  - b. Document the Capitation Tax (if applicable) per DFMS (object code 1160).
  - c. Document the Interest Income per DFMS (object code 8505).
  - d. Document the Transfers In (if applicable) per the CSBA (object code 9104).
  - e. Document the Transfers Out (if applicable) per the CSBA (object code 9105).
  - f. Document the Bond Principal per DFMS (object code 3302).
  - g. Document the Interest Expense per DFMS (object code 3301).
  - h. Document the beginning fund balance per the CSBA.
  - i. Calculate the excess/deficiency of revenues over expenditures (record on spreadsheet).
  - j. Calculate the ending fund balance (record on spreadsheet).
2. Trace the calculated ending fund balance to the CSBA.
3. Follow-up on any variances noted between the calculated ending fund balance and the ending fund balance reflected on the CSBA.
4. Compare the June 30, 2008 debt service reserve ending fund balance to the total required debt service payments for July 1, 2008 - October 31, 2008 (found on "Payment Schedule\_*name of School District*" spreadsheet) to determine that the debt service reserve was sufficient, without being excessive.
5. If the June 30, 2008 balance appeared excessive, discuss with District Officials. Determine and document the reason for the excessive fund balance. If available, obtain the School District's Fiscal Year 2009 tax warrant to ascertain if tax rate has been lowered. If the excessive balance is not warranted, draft a finding.
6. If the June 30, 2008 balance is not sufficient to meet the debt service payments for July 1, 2008 through October 31, 2008, discuss immediately with the auditee.

#### ***Findings:***

See **Schedule of Findings** section of the report.

### ***Objective #4***

**For the four restructured School Districts within New Castle County, test DOE's September and October 2007 calculations to verify proper allocation of tax revenues.**

#### ***Procedures:***

1. Obtain the Districts' tax warrants (Note: The warrant separates the tax rate amount the following categories: current operating expenses, minor capital improvements, debt service, tuition, and

capitation [if applicable] ) sent to the County Tax Office for Fiscal Year 2008, directing the County to collect specific tax amounts per \$100 assessed property.

2. Obtain from DOE the amount of school taxes deposited to the credit of each District for September and October 2007 (DOE receives this detail monthly from the Chief Financial Officer of New Castle County).
3. Obtain from DOE's Director of Financial Management (currently Mr. John Marinucci) the spreadsheets prepared by DOE for September and October 2007. Also obtain copies of the respective CR documents.
4. Trace the amounts reported by New Castle County and per the 2008 tax warrants to DOE's spreadsheets for September and October. Determine if they agree. Verify accuracy of formulas within the spreadsheet.
5. For September and October, trace CR documents to the Appropriation Receipts by Revenue Code for each category.
6. Follow up on any significant variances.

***Findings:***

No findings were noted for this objective.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with specified laws. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Department of Education and the School Districts identified above and should not be used by those who have not agreed to the procedures and have not taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited. This report, as required by statute, was provided to the Office of the Governor, Office of the Controller General, Office of the Attorney General, Office of Management and Budget, Department of Finance, and the State Treasurer's Office.

R. Thomas Wagner, Jr., CFE, CGFM, CICA  
Auditor of Accounts  
Office of Auditor of Accounts

September 23, 2008

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# SCHEDULE OF FINDINGS

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## **Objective #1**

**For all School Districts, except for the four restructured School Districts within New Castle County, recalculate the real estate tax for current operations, debt service, tuition, and minor capital improvements to verify tax receipts were properly recorded in DFMS.**

## **Finding**

### **Polytech School District**

#### **Criteria**

Title 29 Del Code, §7514 states debt service money received ". . . shall be deposited by the State Treasurer in a special fund and shall be expended only for school construction in such district."

#### **Condition**

Polytech School District improperly allocated \$2,592.07 to appropriation 8000 (Current Expense Account) instead of appropriation 8110 (Debt Service) and 8420 (Technology Match).

#### **Cause**

The errors in coding were undetected by the District. A lack of reconciliation and management review contributed to the non-detection of the errors.

#### **Effect**

Misappropriation of receipts has a negative impact on the funding available for school construction projects.

## **Recommendation**

The District implement reconciliation and review processes to verify correct posting of transactions, to identify errors, and to assist in timely correction of errors. Additionally, the District should draft a Cash Adjustment to reallocate the funds.

## **Auditee Response**

The District acknowledges the error and has prepared the required EX documents to transfer funds from Current Expense to Debt Service and Technology Match. This was a clerical error caused by allocating the July receipts at the 2008 rate instead of the 2007 rate. The District has conducted a review of 2009 receipts to assure accurate allocation.

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# SCHEDULE OF FINDINGS

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## Objective #3

**Compare the June 30, 2008 debt service reserve balances to the total required debt service payments for July 1, 2008 through October 31, 2008 to determine whether the debt service reserves were sufficient, without being excessive, and to pay the bond principal and interest for the first four months of Fiscal Year 2009.**

## Finding

### Criteria

Attorney General's Opinion 1W-024 dated July 15, 1975 states, "The power of a district to levy taxes for bonded indebtedness is limited to the amount necessary to pay the interest and annual payment on outstanding bonds, plus 10 percent for delinquencies (14 Del. C., Section 2116, 2118)." Additionally, this opinion affirms that, "A school district may not assess debt service taxes in an amount which exceed that necessary to pay off its bond obligations as they fall due." The Department of Education recommends a 4-month reserve be maintained to provide adequate cash flow.

### Condition

#### Delmar School District

Delmar School District's debt service balance as of June 30, 2008 was \$774,726.43. Principal and interest payments for the first four months of Fiscal Year 2009 (July 1, 2008 through October 31, 2008) total \$95,629.84 resulting in an excess balance of \$679,096.59. The balance as of June 30, 2008 is considered excessive, as it provides for 205% of principal and interest payments for Fiscal Year 2009.

#### Cape Henlopen School District

Cape Henlopen School District's debt service balance as of June 30, 2008 was \$4,875,002.11. Principal and interest payments for the first four months of Fiscal Year 2009 (July 1, 2008 through October 31, 2008) total \$2,641,783.87 resulting in an excess balance of \$2,233,218.24. The balance as of June 30, 2008 is considered excessive, as it provides for 80% of principal and interest payments for Fiscal Year 2009. Although the District has reduced the debt service tax rate for Fiscal Year 2009 by .04, the excessive reserve will only decrease by 7% according to estimated revenues.

#### Christina School District

Christina School District's debt service balance was \$4,907,880.67 at June 30, 2008. Principal and interest payments for the first four months of Fiscal Year 2009 (July 1, 2008 through October 31, 2008) total \$4,116,134.49 resulting in an excess balance of \$791,746.18. The balance as of June 30, 2008 is considered excessive, as it provides for 52% of principal and interest payments for Fiscal Year 2009.

### Cause

Reductions in the debt service tax rate have not been sufficient to substantially lower the balance of the debt service reserve.

### Effect

Insufficient reductions in the debt service tax rate result in noncompliance with Attorney General's Opinion 1W-024 and unnecessary tax collections from taxpayers within the District.



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# SCHEDULE OF FINDINGS

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## **Recommendation**

Delmar, Cape Henlopen, and Christina School Districts should reduce their debt service reserve by lowering their debt service tax rate. The Districts should monitor the debt service obligations, tax rate, and projected tax base to ensure adequate, but not excessive, funds to meet debt service obligations.

## **Auditee Response**

### **Delmar School District**

The Delmar Board of Education is planning on holding a referendum to ask the taxpayers to allow a transfer from the Debt Service account to the Operating Account to help offset the additional costs involved with the operations of the new school and the state budget reductions. This transfer will significantly reduce the balance in the Debt Service Account. The School Board and Administration will monitor closely the effect of the reduction along with the attached projection to make sure the balance remains adequate, but not excessive. Per the attached projections, it will take at least two years before the balance will level off to be considered adequate, but not excessive. Lowering the tax rate for 2010 would cause the district to under fund the Debt Service Account within three years. The projection will be refigured each year to reflect actual balances.

### **Cape Henlopen School District**

The District agrees with the finding. The excess balance is a factor of two things (1) receiving a lower interest rate than was projected at the time of the state bond sale; and, (2) the District's assessed value on which revenues were projected was higher than anticipated. The District will take steps necessary to reduce the reserve cash in the debt service account.

### **Christina School District**

Christina School District has reviewed, and is in agreement with the Audit finding. The finding noted that the District had an excess balance of \$791,746.18. The Auditor included in their evaluation, Interest Income in the amount of \$769,345.93. Christina School District did not include interest income in our calculation for adequacy of our Debt Reserve Fund. This will be corrected in our calculations for the fiscal 2010 tax warrant.

# SCHEDULE OF PRIOR YEAR FINDINGS

The following schedule summarized the prior year findings and the status of the prior year findings.

Prior Year Finding	Recommendation	Status of Prior Year Finding
Indian River School District improperly allocated \$109,107.25 to appropriation 8200 (Tuition) instead of appropriation 8100 (Debt Service).	The District implement reconciliation and review processes to verify correct posting of transactions, to identify errors, and to assist in timely correction of errors.	Implemented.
Lake Forest School District improperly allocated \$24,232.22 to appropriation 8100 (Debt Service) instead of 8200 (Tuition).	The District implement reconciliation and review processes to verify correct posting of transactions, to identify errors, and to assist in timely correction of errors.	Implemented.
Appoquinimink School District improperly allocated \$2,345.91 to appropriation 8300 (Cafeteria Account) instead of appropriation 8400 (Minor Cap). The District also improperly allocated the November tax receipts across appropriations 8000, 8100, 8200, and 8400. A Cash Adjustment Document (CA) totaling \$22,345.30 was processed to transfer the funds into the correct appropriations.	Appoquinimink School District implement reconciliation and review processes to verify correct posting of transactions, to identify errors, and to assist in timely correction of errors.	Implemented.
Indian River School District improperly allocated \$2,374.31 of audit fees to appropriation 8100 Debt Service, which is not in accordance with Delaware Code. The District allocated local fund audit costs across various local fund appropriations based on their June 30, 2006 unencumbered balances.	The District should process a correction document for \$2,374.31 to refund the Debt Service appropriation and ensure that only bond principal and interest payments are paid with these funds.	Not Implemented.

# SCHEDULE OF PRIOR YEAR FINDINGS

Prior Year Finding	Recommendation	Status of Prior Year Finding
Delmar School District's debt service balance as of June 30, 2007 was \$805,042. Principal and interest payments for the period of July 1, 2007 through October 31, 2007 total \$101,194. Principal and interest payments for Fiscal Years 2008 and 2009 (July 1, 2007 through June 30, 2009) total \$388,229 and \$377,101, respectively. The balance as of June 30, 2007 is excessive, as it provides for 100% of principal and interest payments for Fiscal Years 2008 and 2009. Although the School Board has reduced the debt service tax rate from 0.85 to 0.65 for Fiscal Year 2008, projections provided by the District indicate an excessive balance through Fiscal Year 2012.	Delmar School District should substantially reduce its debt service reserve by reducing its debt service tax rate. The District monitor the debt service obligations, tax rate, and projected tax base to ensure adequate, but not excessive, funds to meet debt service obligations.	Not Implemented.

**Status Key:**

Implemented

The concern has been addressed by implementing the original or an alternate corrective action.

Not Implemented

The corrective action has not been initiated.

Partially Implemented

The corrective action has been initiated but is not complete and the auditor has reason to believe management fully intends to address the concern.

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# DISTRIBUTION OF REPORT

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Copies of this report have been distributed to the following public officials:

Executive Branch

The Honorable Ruth Ann Minner, Governor, State of Delaware  
The Honorable Richard S. Cordrey, Secretary, Department of Finance  
The Honorable Jennifer W. Davis, Director, Office of Management and Budget  
Ms. Trisha Neely, Director, Division of Accounting, Department of Finance

Legislative Branch

The Honorable Russell T. Larson, Controller General, Office of Controller General

Other Elective Offices

The Honorable Joseph R. Biden III, Attorney General, Office of the Attorney General  
The Honorable Jack Markell, Treasurer, State Treasurer's Office

Other

Ms. Dorcell S. Spence, Associate Secretary of Education, Finance and Administrative Services,  
Department of Education  
Mr. John Marinucci, Director, Financial Management, Department of Education  
Superintendents, All School Districts